Tax incentives for experienced investors

Successive governments have been keen to encourage innovation and help entrepreneurs to attract the investment they need to develop groundbreaking ideas and bring new products, technologies and medical advances to the marketplace. Whilst conscious that start-ups and high-tech businesses can be risky for backers, government has introduced special schemes with tax advantages to help oil the wheels of enterprise.

In 1995 the government brought in the Venture Capital Trust. VCTs are special collective investments, quoted on the London Stock Exchange, investing in the shares of qualifying unquoted companies. Whatever their tax rate, investors are entitled to 30% tax relief on their investment in new VCT shares, up to £200,000 per tax year. Dividends are tax-free and once VCT shares have been held for five years there is no capital gains tax payable.

View in context of your overall finances

With a similar purpose to the VCT but with a different structure, the Enterprise Investment Scheme also involves tax benefits designed to help smaller high-risk businesses to attract investors. EIS investors also enjoy 30% tax relief when they buy new shares costing up to £1 million per tax year in qualifying unquoted companies. Holdings can qualify for income, capital gains and inheritance tax concessions.

In 2011, the government launched an even more tax-efficient form of EIS, the Seed EIS. This brought with it tax relief at 50% on investment in qualifying small companies on investment of up to £100,000 per tax year, to reflect the relatively high level of risk. If you are considering investment in any of the above schemes, given the complex nature and increased investment risks associated with these schemes it is highly recommended that you discuss this with your financial adviser, ideally in the context of a full review of your financial position and aims.

With us, investment is a bespoke process

We think you will find we measure up well

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Let’s get personal about investment

It’s not a one-size-fits-all matter

Why investment can be rewarding

Investment is a vital means by which entities that need money for their commercial or other purposes, and people or businesses with money they do not need for a while, can both benefit. It brings mutual advantage because cash under the mattress makes no income and loses value over time; and without investors' funds a company or government may be unable to deliver the products or services it exists to provide.

As their money helps entities to function and develop, investors are entitled to expect a financial reward. This may take the form of interest or, where an 'equity' stake is taken through the purchase of shares, a regular dividend paid out of profits. Part of the reward to investors may also reflect a risk that such income could fall or be suspended, and that a share or quoted bond price could fall, perhaps a little or, in rare cases, to zero.

Investment plans to suit your needs

When you first think about becoming an investor, it is important to know that most types of investment differ from those simple savings accounts that virtually guarantee to return your money in full plus an amount of interest that may or may not cover the value lost through inflation. Stock market investments and pooled schemes linked to them can rise and fall in value, but offer the prospect of rising income and long-term capital growth.

There is no golden rule about the best form of investment for you, because individual needs always vary. You could decide to put a spare lump of cash into an investment and hope for the best, but the sound way to proceed is to review all your finances and make some investment plans specifically to suit your current, medium-term and long-term aims. This process can be easier and more effective with help from a financial adviser.

How pooled investments aim to mitigate risk

When you have reviewed your finances and discussed your investment aims and view of risk with your adviser, it is likely that stock market investments will have some role to play in your medium to long-term plan. One risk that can be avoided is the 'all eggs in one basket' problem. Put too much into one company's shares and its failure could be very costly. Spread your money across many shares and a single failure won't hurt too much.

Unless you are a very big investor, the effective way to spread risk in this way is through a pooled, or collective, investment scheme. Unit trusts, open-ended investment companies (OEICs), investment companies with variable capital (ICVCs) and other vehicles enable you to invest in a good spread of shares, whether globally (overseas shares may carry exchange rate risk) or focused on specific countries or sectors.

Lump sum and regular investment

The value of units in a collective investment scheme is regularly updated and published, based on changes in the prices of the shares it holds. This does not apply to one form, investment trusts, whose own shares are quoted on the stock market, albeit influenced by the prices of the shares its owns. Collective schemes are run by specialised investment managers, whose periodic charges come from the funds they manage.

Depending how collective investments fit into your overall plan, you may want to place an amount of capital into one or more funds; or choose to invest a regular monthly sum, either in addition to or instead of a lump sum. Regular investment can help you avoid a big short-term loss if share prices happen to fall just after you invest. 'Drip feeding' a fixed monthly sum means you buy more units if prices have fallen and fewer after a rise.

No need to shun taxman's largesse

The good news on tax and investments is that most investors have nothing whatsoever to fear from high-profile clampdowns on tax evasion and aggressive tax avoidance if they simply take full advantage of the tax breaks specially designed by the authorities to incentivise them. It is fine to accept gratefully the tax concessions linked to investments such as New ISAs, single-premium investment bonds and venture capital trusts.

Most widely held among tax-efficient investments is the Individual Savings Account, updated last year as the more flexible New ISA. July 2014 saw a much-increased annual limit of £15,000 (lifted to £15,240 for 2015-16), enabling qualifying investors to give their ISAs a boost and, for some, increasing the possibility of joining a growing army of 'ISA millionaires'. Gains are tax-free and only the 10% dividend tax at source is payable.

ISA and investment bond tax perks

Your adviser can help structure an ISA to suit your investment objectives, attitude to risk including capacity and tolerance for loss and the need for income or capital growth or both. The added flexibility of New ISAs also gives you the freedom to switch either way between cash and stocks & shares ISAs, subject to providers' terms and conditions. There is also the Junior ISA, with an annual allowance of £4,080 per child for 2015-16. Since April 2015 it has also become possible to switch Child Trust Funds into JISAs.

Another way investors can gain tax advantage is through single-premium investment bonds. These are usually provided by well-known insurers and involve a combination of pooled investment and modest life insurance cover. They pay out no periodic income, so tax on this is deferred until encashment, which can be helpful if you expect your marginal tax band to be lowered in the future. Regular withdrawals are normally permissible.